MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BAC2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

10th OCTOBER 2016
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of FIVE (5) printed pages with FOUR (4) questions.

2. Attempt ALL questions. All questions carry equal marks, and the distribution of marks for each question is given.

3. Please write all your answers in the booklet provided.

QUESTION 1

XYZ BHD

Statement of Financial Position as at December 31, Year 2015 and Year 2014

	2015		2014	
Assets	RM'000	RM'000	RM'000	RM'000
Cash		500		640
Accounts receivable, net		860		550
Inventories		935		790
Prepaid expenses		25		-
Total current assets		2,320		1,980
Patents	140			
Less accumulated amortization	(10)	130		
	-			
Plant and equipment	2,650		1,950	
Less accumulated depreciation	(600)	2,050	(510)	1,440
	-			
Other assets	200		175	
Less accumulated depreciation	(30)	170	(25)	150
Total assets		4,670		3,570
Liabilities and Equity				
Accounts payable		630		600
Deferred income tax		57		45
Other current liabilities		85		78
Total current liabilities		772		723
Long-term debt		1,650		850
Common stock, RM1 par		2,000		1,800
Retained earnings		248		197
Total liabilities and equity		4,670		3,570

In addition, the following information is available:

1. Net income for 2015 is RM160,000 and for 2014 is RM130,000.
2. Cash dividends paid during 2015 are RM109,000 and during 2014 are RM100,000.
3. Depreciation expense charged to income during 2015 is RM95,000, and the provision for bad debts (expense) is RM40,000. Expenses include cash payments of RM28,000 in interest costs and RM70,000 in income taxes.

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4. During 2015 the company purchases patents for RM140,000 in cash. Amortization of patents during the year amounts to RM10,000.

5. Deferred income tax for 2015 amounts to RM12,000 and for 2014 amounts to RM15,000.

Required:

a. Prepare a statement of cash flows (indirect method) for 2015. (15 marks)

b. Explain the discrepancy between net income and cash flows from operations. (4 marks)

c. Describe options available to management to remedy the cash deficiency. (6 marks)

(Total: 25 marks)

QUESTION 2

Delta Sdn Bhd purchases its merchandise at current market costs and resells the product at a price 20 cents higher. Its inventory costs are constant throughout the current year. Data on the number of units in inventory at the beginning of the year, unit purchases, and unit sales are shown here:

Number of units in inventory—beginning of year @ RM1 per unit cost for 10,000 units

Number of units purchased during year @ RM1.50 per unit cost for 10,000 units

Number of units sold during year @ RM1.70 per unit selling price for 10,000 units

The beginning-of-year statement of financial position for Delta Sdn Bhd reports the following:

Inventory (10,000 units @ RM1)... RM10,000

Total equity.....RM10,000

Required:

a. Compute the after-tax profit of Delta Sdn Bhd separately for both the (1) FIFO and (2) LIFO methods of inventory valuation assuming the company have no expenses other than the cost of goods sold and its income tax rate is 25%. Taxes are accrued currently and paid the following year. (10 Marks)

b. If all sales and purchases are for cash, construct the statement of financial position at the end of this year separately for both the (1) FIFO and (2) LIFO methods of inventory valuation. (10 Marks)

c. Describe the significance of each of these methods of inventory valuation for income determination and financial position in a period of increasing costs. (5 Marks)

(Total: 25 marks)

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QUESTION 3

Two companies competing in the same industry are being evaluated by a bank that can lend money to only one of them. Key comparative figures for both Safari Sdn Bhd and Sakura Sdn Bhd are as follows:

Data from the current year-end statement of financial position:

Assets	Safari (RM)	Sakura (RM)
Cash	18,500	33,000
Accounts receivable, net	36,400	56,400
Notes receivable (trade)	8,100	6,200
Merchandise inventory	83,440	131,500
Prepaid expenses	4,000	5,950
Plant and equipment, net	284,000	303,400
Total assets	434,440	536,450
Liabilities and Stockholders' Equity		
Current liabilities	60,340	92,300
Long-term notes payable	79,800	100,000
Common stock, RM5 par value	175,000	205,000
Retained earnings	119,300	139,150
Total liabilities and equity	434,440	536,450

Data from the current year's statement of profit or loss:

	Safari (RM)	Sakura (RM)
Sales	660,000	780,200
Cost of goods sold	485,100	532,500
Interest expense	6,900	11,000
Income tax expense	12,800	19,300
Net income	67,770	105,000
Basic earnings per share	1.94	2.56

Beginning-of-year data:	Safari (RM)	Sakura (RM)
Accounts receivable, net	28,800	53,200
Notes receivable (trade)	0	0
Merchandise inventory	54,600	106,400
Total assets	388,000	372,500
Common stock, RM5 par value .	175,000	205,000
Retained earnings	94,300	90,600

Required:

a. (i) Compute for both companies:

(a) The current ratio

(b) The acid-test ratio

(c) The accounts (including notes) receivable turnover

(d) The inventory turnover

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(e) The days' sales in inventory

(f) The days' sales in receivables

(9 marks)

(ii) From your findings above, identify the company that you consider to be the better short-term credit risk and give your reason. (3 marks)

b. (i) Compute for **both** companies:

(a) The net profit margin

(b) The total asset turnover

(c) The return on total assets

(d) The return on common stockholders' equity. (7 marks)

(ii) Assuming that each company paid cash dividends of RM1.50 per share and each company's stock can be purchased at RM25 per share, compute their price-earnings ratios and dividend yields. (3 marks)

(iii) From your findings in b(i) and b(ii) above, identify which company's stock you would recommend as the better investment and give your reason. (3 marks)

(Total: 25 marks)

QUESTION 4

Comparative income statements of Sukahati Manufacturing Company for Years 9 and 8 are reproduced below:

	Year 9 RM	**Year 8 RM**
Net sales	600,000	500,000
Cost of goods sold	490,000	430,000
Gross margin	110,000	70,000
Operating expenses	101,000	51,000
Income before taxes	9,000	19,000
Income taxes	2,400	5,000
Net income	6,600	14,000

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Required:

a. Prepare common-size statements showing the percent of each item to net sales for both Year 8 and Year 9. Include a column reporting the percentage increase or decrease for Year 9 relative to Year 8 (***answer in one decimal point***). (15 marks)

b. Interpret the trend shown in your percentage calculations of question (a) above and identify a matter of managerial concern. (5 marks)

c. "Growth in earnings per share from an increase in equity turnover is unlikely to continue indefinitely." Do you agree or disagree with this assertion? Explain your answer and discuss the components of equity turnover for their impact on earnings. (5 marks)

(Total: 25 marks)

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